

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Bell County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information financial statements of Bell County, Kentucky. Based upon the audit work performed, the financial statements are presented fairly in all material respects. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Bell County's major federal program, U. S. Department of the Interior – Abandoned Mine Land Reclamation Program – Laurel Fork Water Project, for the year ended June 30, 2004.

Financial Condition:

The Fiscal Court had net assets of \$4,815,269 as of June 30, 2004. The Fiscal Court had unrestricted net assets of \$2,786,136 in its governmental funds as of June 30, 2004, with total net assets of \$4,784,758. In its enterprise fund, total net cash and cash equivalents were \$30,511 with total net assets of \$30,511. The Fiscal Court had total debt principal as of June 30, 2004 of \$6,369,688 with \$204,861 due within the next year.

Report Comment:

2004-01 The County Did Not Maintain Adequate Documentation For Expenditures

2004-02 The County Lacks Adequate Segregation Of Duties

Deposits:

The Fiscal Court deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable William Kelley, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has elected to implement Governmental Accounting Standards Board Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Albey Brock, Bell County Judge/Executive

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Members of the Bell County Fiscal Court

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bell County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2007 on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2004-01 The County Did Not Maintain Adequate Documentation For Expenditures
- 2004-02 The County Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

May 7, 2007

BELL COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

William Kelley	County Judge/Executive
Charles Hunter	Magistrate
John D. Brock	Magistrate
David E. Gilbert	Magistrate
Coye Silcox	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

William Neal Ward	County Attorney
James J. Hoskins	Jailer
Joan Asher Cawood	County Clerk
Charles Green	Circuit Court Clerk
Bruce Bennett	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Sharon Taylor	County Treasurer
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BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,218,313	\$ 30,511	\$ 3,248,824
Total Current Assets	<u>3,218,313</u>	<u>30,511</u>	<u>3,248,824</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	448,360		448,360
Buildings	6,116,435		6,116,435
Equipment	510,435		510,435
Vehicles	457,419		457,419
Infrastructure Assets - Net of Depreciation	403,484		403,484
Total Noncurrent Assets	<u>7,936,133</u>		<u>7,936,133</u>
Total Assets	<u>11,154,446</u>	<u>30,511</u>	<u>11,184,957</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	100,000		100,000
Financing Obligations Payable	104,861		104,861
Total Current Liabilities	<u>204,861</u>		<u>204,861</u>
Noncurrent Liabilities:			
Bonds Payable	5,585,000		
Financing Obligations Payable	579,827		
Total Noncurrent Liabilities:	<u>6,164,827</u>		
Total Liabilities	<u>6,369,688</u>		
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,998,622		1,998,622
Unrestricted	2,786,136	30,511	2,816,647
Total Net Assets	<u>\$ 4,784,758</u>	<u>\$ 30,511</u>	<u>\$ 4,815,269</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,434,732	\$ 115,490	\$ 724,130	\$
Protection to Persons and Property	2,082,593	840,597	737,255	
General Health and Sanitation	90,383			495,928
Social Services	9,750			
Recreation and Culture	84,557			
Roads	539,205		1,654,944	
Road Facilities	41,420			
Debt Service	470,586			
Capital Projects	421,692			1,139,275
Total Governmental Activities	7,174,918	956,087	3,116,329	1,635,203
Business-type Activities:				
Jail Canteen	37,167	52,440		
Total Business-type Activities	37,167	52,440		
Total Primary Government	\$ 7,212,085	\$ 1,008,527	\$ 3,116,329	\$ 1,635,203

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Insurance Premium Taxes

Other Taxes

Excess Fees

Unrestricted Intergovernmental Revenue

Unrestricted Investment Earnings

Other Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,595,112)	\$	\$ (2,595,112)
(504,741)		(504,741)
405,545		405,545
(9,750)		(9,750)
(84,557)		(84,557)
1,115,739		1,115,739
(41,420)		(41,420)
(470,586)		(470,586)
717,583		717,583
(1,467,299)		(1,467,299)
	15,273	15,273
	15,273	15,273
(1,467,299)	15,273	(1,452,026)
675,168		675,168
55,293		55,293
131,477		131,477
483,907		483,907
394,782		394,782
104,015		104,015
51,022		51,022
112,601		112,601
231,691		231,691
2,239,956		2,239,956
772,657	15,273	787,930
4,012,101	15,238	4,027,339
\$ 4,784,758	\$ 30,511	\$ 4,815,269

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Ambulance Fund	Local Government Economic Development Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,277,143	\$ 507,816	\$ 117,447	\$ 302,103	\$ 345,428
Total Assets	<u>\$ 1,277,143</u>	<u>\$ 507,816</u>	<u>\$ 117,447</u>	<u>\$ 302,103</u>	<u>\$ 345,428</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 9,676	\$ 68,061	\$ 15,125	\$ 3,423	\$ 5,083
Grant Expenditures					
Unreserved:					
General Fund	1,267,467				
Special Revenue Funds		439,755	102,322	298,680	340,345
Capital Projects Funds					
Total Fund Balances	<u>\$ 1,277,143</u>	<u>\$ 507,816</u>	<u>\$ 117,447</u>	<u>\$ 302,103</u>	<u>\$ 345,428</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Judicial Building Project Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 431,894</u>	<u>\$ 236,482</u>	<u>\$ 3,218,313</u>
<u>\$ 431,894</u>	<u>\$ 236,482</u>	<u>\$ 3,218,313</u>
\$	\$	\$
	2,403	101,368 2,403
		1,267,467
	232,351	1,413,453
431,894	1,728	433,622
<u>\$ 431,894</u>	<u>\$ 236,482</u>	<u>\$ 3,218,313</u>

Reconciliation To The Statement of Net Assets

Total Fund Balances	\$ 3,218,313
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	9,875,146
Accumulated Depreciation	(1,939,013)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(684,688)
Bonded Debt	(5,685,000)
Net Assets Of Governmental Activities	<u>\$ 4,784,758</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
REVENUES				
Taxes	\$ 1,256,719	\$	\$	\$
In Lieu Tax Payments	19,839	11,742		
Excess Fees	104,015			
Licenses and Permits	29,194			
Intergovernmental	865,565	1,085,265	327,773	11,583
Charges for Services			47,994	703,117
Miscellaneous	141,963	4,883	18,278	3,911
Interest	87,565			
Total Revenues	<u>2,504,860</u>	<u>1,101,890</u>	<u>394,045</u>	<u>718,611</u>
EXPENDITURES				
General Government	1,333,457	19,195		
Protection to Persons and Property	93,428		677,742	723,151
General Health and Sanitation	63,883			
Social Services				
Recreation and Culture	1,500			
Road	7,942	944,964		
Road Facilities		41,420		
Debt Service	125,067			18,245
Capital Projects	2,102			
Administration	554,088	192,830	134,508	154,351
Total Expenditures	<u>2,181,467</u>	<u>1,198,409</u>	<u>812,250</u>	<u>895,747</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>323,393</u>	<u>(96,519)</u>	<u>(418,205)</u>	<u>(177,136)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds				135,000
Transfers From Other Funds	20,000		420,000	120,991
Transfers To Other Funds	(70,000)			(20,000)
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u></u>	<u>420,000</u>	<u>235,991</u>
Net Change in Fund Balances	273,393	(96,519)	1,795	58,855
Fund Balances - Beginning (Restated)	1,003,750	604,335	115,652	243,248
Fund Balances - Ending	<u>\$ 1,277,143</u>	<u>\$ 507,816</u>	<u>\$ 117,447</u>	<u>\$ 302,103</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Local Government Economic Development Fund	Judicial Building Project Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 483,907	\$ 1,740,626
			31,581
			104,015
			29,194
905,174	400,137	1,299,707	4,895,204
			751,111
	2,251	111,957	283,243
	24,816	221	112,602
<u>905,174</u>	<u>427,204</u>	<u>1,895,792</u>	<u>7,947,576</u>
986,451		7,170	2,346,273
		876,070	2,370,391
		26,500	90,383
		9,750	9,750
		83,057	84,557
		164,122	1,117,028
			41,420
	419,501	111,152	673,965
120,381	77,748	221,461	421,692
	1,500		1,037,277
<u>1,106,832</u>	<u>498,749</u>	<u>1,499,282</u>	<u>8,192,736</u>
<u>(201,658)</u>	<u>(71,545)</u>	<u>396,510</u>	<u>(245,160)</u>
			135,000
			560,991
		(470,991)	(560,991)
		(470,991)	135,000
(201,658)	(71,545)	(74,481)	(110,160)
547,086	503,439	310,963	3,328,473
<u>\$ 345,428</u>	<u>\$ 431,894</u>	<u>\$ 236,482</u>	<u>\$ 3,218,313</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (110,160)
--	--------------

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	1,098,921
Depreciation Expense	(284,483)

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.

Financing Obligation Proceeds	(135,000)
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Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Financing Obligations Principal Payments	108,379
Bond Payments	95,000

Change in Net Assets of Governmental Activities	\$ 772,657
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BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 30,511
Total Current Assets	<u>30,511</u>
Net Assets	
Unrestricted	30,511
Total Net Assets	<u><u>\$ 30,511</u></u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 52,440
Total Operating Revenues	<u>52,440</u>
Operating Expenses	
Cost of Sales	<u>37,167</u>
Total Operating Expenses	<u>37,167</u>
Operating Income	<u>15,273</u>
Change In Net Assets	15,273
Total Net Assets - Beginning	<u>15,238</u>
Total Net Assets - Ending	<u><u>\$ 30,511</u></u>

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BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 52,440
Cost of Sales	<u>(37,167)</u>
Net Cash Provided By Operating Activities	<u>15,273</u>
Net Increase in Cash and Cash Equivalents	15,273
Cash and Cash Equivalents - July 1, 2003	<u>15,238</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 30,511</u></u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	<u>\$ 15,273</u>
Net Cash Provided By Operating Activities	<u><u>\$ 15,273</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though it is part of the county's primary government using the blending method.

Public Properties Corporation: Judicial Building Project

The Public Properties Corporation: Judicial Building Project (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Bell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance service activity of the county. The primary sources of revenue for this fund are collections for ambulance services.

Local Government Economic Development Fund - The primary purpose of this fund is to account for local government economic development grant activity of the county. The primary source of revenue for this fund is grants received from state government.

Judicial Building Project Fund - The Judicial Building Project Fund accounts for the activities of the Public Properties Corporation: Judicial Building Project Fund, a blended component unit of the county. The Public Properties Corporation issued debt to build a judicial building. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. GOLD does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, Federal Grants Fund, Insurance Premium Tax Fund, Abandoned Mine Land Laurel Fork Fund and Cumberland Gap Provisions Revolving Loan Fund.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Development Fund, Local Government Economic Assistance Fund, State Grants Fund, Federal Grants Fund, Insurance Premium Tax Fund, and Abandoned Mine Land Laurel Fork Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation: Judicial Building Project Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities. The Public Properties Corporation: Judicial Building Project Fund will be classified as a Capital Projects Fund Type as long as it relates to the construction of a new judicial building. After the construction of the facility is completed, this fund will be reclassified as a Debt Service Fund Type.

Debt Service Fund:

The Cumberland Gap Provisions Revolving Loan Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 25,000	10-75
Buildings Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Building Project Fund. The Governor's Office for Local Development does not require this fund to be budgeted. A formal budget is not adopted for the Jail Canteen Fund. GOLD does not require this fund to be budgeted.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government as beneficiary/obligee on the bond.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases Ending Balance
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land	\$ 376,360	\$ 72,000	\$ 448,360
Total Capital Assets Not Being Depreciated	376,360	72,000	448,360
Capital Assets, Being Depreciated:			
Buildings	7,048,968	213,000	7,261,968
Equipment	603,943	130,538	734,481
Vehicles	746,954	246,798	993,752
Infrastructure		436,585	436,585
Total Capital Assets Being Depreciated	8,399,865	1,026,921	9,426,786
Less Accumulated Depreciation For:			
Buildings	(1,023,992)	(121,541)	(1,145,533)
Equipment	(190,044)	(34,002)	(224,046)
Vehicles	(440,494)	(95,839)	(536,333)
Infrastructure		(33,101)	(33,101)
Total Accumulated Depreciation	(1,654,530)	(284,483)	(1,939,013)
Total Capital Assets, Being Depreciated, Net	6,745,335	742,438	7,487,773
Governmental Activities Capital Assets, Net	\$ 7,121,695	\$ 814,438	\$ 7,936,133

Note 3. Capital Assets (Continued)

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 123,678
Protection to Persons and Property	68,271
Roads, Including Depreciation of General Infrastructure Assets	<u>92,534</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 284,483</u>

Note 4. Long-term Debt

A. Ambulance Financing Obligation

On December 1, 1999, the county entered into an agreement with GEM Capital Corporation for the purpose of obtaining an ambulance. Terms of the agreement stipulate 20 quarterly payments in the amount of \$3,335. As of June 30, 2004, the principal balance remaining was \$3,289. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	<u>\$ 47</u>	<u>\$ 3,289</u>

B. Waterline Financing Obligations

The county has entered into four agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each agreement:

- 1) The county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in October 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2004, the principal balance remaining was \$91,000. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 4,825	\$ 8,000
2006	4,361	9,000
2007	3,821	9,000
2008	3,348	10,000
2009	2,797	10,000
2010-2013	<u>5,242</u>	<u>45,000</u>
Totals	<u>\$ 24,394</u>	<u>\$ 91,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

B. Waterline Financing Obligations (Continued)

- 2) The county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in May 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2004, the principal balance remaining was \$25,000. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 1,295	\$ 12,000
2006	491	13,000
Totals	<u>\$ 1,786</u>	<u>\$ 25,000</u>

- 3) The county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in September 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2004, the principal balance remaining was \$52,000. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 3,133	\$ 4,000
2006	2,884	4,000
2007	2,635	4,000
2008	2,386	4,000
2009	2,137	4,000
2010-2014	6,178	26,000
2015	218	6,000
Totals	<u>\$ 19,571</u>	<u>\$ 52,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

B. Waterline Financing Obligations (Continued)

- 4) The county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in March 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2004, the principal balance remaining was \$264,177. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 13,573	\$ 35,000
2006	11,647	36,000
2007	9,644	38,000
2008	7,554	39,000
2009	5,389	41,000
2010-2011	4,134	75,177
Totals	\$ 51,941	\$ 264,177

C. Voting Machine Financing Obligation

The county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program during January 2002. The proceeds were used to acquire 40 voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2004, the principal balance remaining was \$116,700. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 4,105	\$ 37,500
2006	2,560	38,800
2007	957	40,400
Totals	\$ 7,622	\$ 116,700

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long Term Debt (Continued)

D. Ambulance Garage Financing Obligation

The county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program during November 26, 2003. The proceeds were used to acquire land and a building. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2004, the principal balance remaining was \$132,522. Future payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 3,856	\$ 5,072
2006	4,425	5,227
2007	4,237	5,387
2008	4,050	5,551
2009	3,850	5,721
2010-2014	16,075	31,334
2015-2019	10,154	36,421
2020-2024	3,288	37,809
Totals	<u>\$ 49,935</u>	<u>\$ 132,522</u>

E. 2000 Bond Issue

On July 1, 2000, the Bell County Public Properties Corporation issued bonds in order to construct the Farmer Helton Judicial Building. On the same day, the Bell County Public Properties Corporation, Administrative Office of the Courts, (AOC) and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Judicial Building. The financing plan for the project is as follows:

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commenced with occupancy of the Judicial Building by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2028, but the lease does not legally obligate the AOC to do so.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

E. 2000 Bond Issue (Continued)

As of June 30, 2004, the principal balance remaining was \$5,685,000. Future bond payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 319,383	\$ 100,000
2006	314,001	105,000
2007	308,358	110,000
2008	302,451	115,000
2009-2013	1,411,834	680,000
2014-2018	1,199,925	900,000
2019-2023	908,321	1,205,000
2024-2028	494,318	1,640,000
2029	24,278	830,000
Totals	<u>\$ 5,282,869</u>	<u>\$ 5,685,000</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 5,780,000	\$	\$ (95,000)	\$ 5,685,000	\$ 100,000
Financing Obligations	<u>658,067</u>	<u>135,000</u>	<u>(108,379)</u>	<u>684,688</u>	<u>104,861</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 6,438,067</u>	<u>\$ 135,000</u>	<u>\$ (203,379)</u>	<u>\$ 6,369,688</u>	<u>\$ 204,861</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$34,933 in interest on financing obligations and \$324,501 in interest on bonds.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments were due for the first three (3) years of the loan term. At the end of that three (3) year period, \$100,000 of the principal amount of the loan was forgiven, based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance is being amortized at an interest rate of three percent (3%) per annum over the remaining life of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. As of June 30, 2004, Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement.

Principal Balance Due County at June 30, 2004

\$546,398

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The beginning fund balance of \$3,328,473 includes prior period general fund adjustments of \$249 for prior year receivables that have not cleared.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 10. Changes in Accounting Principles

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities was \$4,012,101 and the beginning fund balance was \$3,328,474 for an increase of \$683,627 that was due to capital assets previously omitted.

The beginning net asset balance of the business-type activities was not affected by this change in accounting principles.

Note 11. Subsequent Events

- A. Bell County authorized General Obligation Improvement Bonds Series 2006 dated August 2006 in the principal amount of \$3,500,000 for the purpose of financing the acquisition, development, and construction of a detention facility.
- B. Bell County authorized General Obligation Improvement Bonds Series 2006B dated September 1, 2006 in the principal amount of \$1,250,000 and loaned the proceeds to the Bell-Whitley Community Action Agency, Inc. for the purpose of financing the cost of a portion of the construction and operation of the Bell-Whitley Community Action Agency, Inc. building.
- C. During July 2006, the county entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the principal amount of \$300,000. The financing was for the construction of a sewer line.
- D. During July 2006, the county entered into an agreement with the Kentucky Association of Counties Lease Trust Program in the amount of \$360,000. On August 25, 2006 the county loaned the proceeds totaling \$360,000 and Local Government Economic Development Funds totaling \$200,000 to McCoy Manufacturing, Inc. and G&J Willis, Inc. to finance the construction of an industrial building. In turn, a \$560,000 promissory note between the county and McCoy Manufacturing, Inc. was entered into on August 25, 2006 whereby McCoy Manufacturing, Inc. promises to pay the county one hundred eighty consecutive monthly payments of \$4,005 beginning the thirtieth day following the issuance of a certificate of occupancy.

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,068,000	\$ 1,068,000	\$ 1,256,719	\$ 188,719
In Lieu Tax Payments	13,000	13,000	19,839	6,839
Excess Fees	10,375	10,375	104,015	93,640
Licenses and Permits	28,000	28,000	29,194	1,194
Intergovernmental Revenue	563,006	671,542	865,565	194,023
Charges for Services	400	400		(400)
Miscellaneous	96,032	96,032	141,963	45,931
Interest	78,500	78,500	87,565	9,065
Total Revenues	<u>1,857,313</u>	<u>1,965,849</u>	<u>2,504,860</u>	<u>539,011</u>
EXPENDITURES				
General Government	1,383,597	1,434,433	1,333,457	100,976
Protection to Persons and Property	98,040	98,040	93,428	4,612
General Health and Sanitation	67,303	68,203	63,883	4,320
Recreation and Culture		1,500	1,500	
Roads		8,720	7,942	778
Debt Service	124,930	233,603	125,067	108,536
Capital Projects		2,102	2,102	
Administration	660,304	596,109	554,088	42,021
Total Expenditures	<u>2,334,174</u>	<u>2,442,710</u>	<u>2,181,467</u>	<u>261,243</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(476,861)</u>	<u>(476,861)</u>	<u>323,393</u>	<u>800,254</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	20,000	20,000	20,000	
Transfers To Other Funds	<u>(70,000)</u>	<u>(70,000)</u>	<u>(70,000)</u>	
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	
Net Changes in Fund Balance	(526,861)	(526,861)	273,393	800,254
Fund Balance - Beginning	<u>526,861</u>	<u>526,861</u>	<u>1,003,750</u>	<u>476,889</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,277,143</u>	<u>\$ 1,277,143</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$	\$	\$ 11,742	\$ 11,742
Intergovernmental Revenue	856,495	1,183,010	1,085,265	(97,745)
Miscellaneous			4,883	4,883
Total Revenues	856,495	1,183,010	1,101,890	(81,120)
EXPENDITURES				
General Government	18,000	19,195	19,195	
Road Facilities	50,500	50,500	41,420	9,080
Road	871,126	1,154,582	944,964	209,618
Administration	216,869	258,733	192,830	65,903
Total Expenditures	1,156,495	1,483,010	1,198,409	284,601
Excess (Deficiency) of Revenues Over Expenditures	(300,000)	(300,000)	(96,519)	203,481
Net Changes in Fund Balance	(300,000)	(300,000)	(96,519)	203,481
Fund Balance - Beginning	300,000	300,000	604,335	304,335
Fund Balance - Ending	\$ 0	\$ 0	\$ 507,816	\$ 507,816

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 309,903	\$ 309,903	\$ 327,773	\$ 17,870
Charges for Services	40,000	40,000	47,994	7,994
Miscellaneous	12,000	12,000	18,278	6,278
Total Revenues	<u>361,903</u>	<u>361,903</u>	<u>394,045</u>	<u>32,142</u>
EXPENDITURES				
Protection to Persons and Property	712,980	721,218	677,742	43,476
Administration	148,757	140,519	134,508	6,011
Total Expenditures	<u>861,737</u>	<u>861,737</u>	<u>812,250</u>	<u>49,487</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(499,834)</u>	<u>(499,834)</u>	<u>(418,205)</u>	<u>81,629</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	420,000	420,000	420,000	
Total Other Financing Sources (Uses)	<u>420,000</u>	<u>420,000</u>	<u>420,000</u>	
Net Changes in Fund Balance	(79,834)	(79,834)	1,795	81,629
Fund Balance - Beginning	<u>79,834</u>	<u>79,834</u>	<u>115,652</u>	<u>35,818</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,447</u>	<u>\$ 117,447</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 11,583	\$ 11,583	\$ 11,583	\$
Charges for Services	610,800	610,800	703,117	92,317
Miscellaneous	50	50	3,911	3,861
Total Revenues	622,433	622,433	718,611	96,178
EXPENDITURES				
Protection to Persons and Property	626,395	763,131	723,151	39,980
Debt Service	13,342	18,246	18,245	1
Administration	191,041	193,151	154,351	38,800
Total Expenditures	830,778	974,528	895,747	78,781
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(208,345)	(352,095)	(177,136)	174,959
OTHER FINANCING SOURCES (USES)				
Financing Obligations Proceeds		135,000	135,000	
Transfers From Other Funds	112,500	121,250	120,991	(259)
Transfers To Other Funds	(20,000)	(20,000)	(20,000)	
Total Other Financing Sources (Uses)	92,500	236,250	235,991	(259)
Net Changes in Fund Balances	(115,845)	(115,845)	58,855	174,700
Fund Balances - Beginning	115,845	115,845	243,248	127,403
Fund Balances - Ending	\$ 0	\$ 0	\$ 302,103	\$ 302,103

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,773,500	\$ 1,826,840	\$ 905,174	\$ (921,666)
Total Revenues	1,773,500	1,826,840	905,174	(921,666)
EXPENDITURES				
General Government	1,389,655	1,442,995	986,451	456,544
Capital Projects	1,000,000	1,000,000	120,381	879,619
Total Expenditures	2,389,655	2,442,995	1,106,832	1,336,163
Excess (Deficiency) of Revenues Over Expenditures	(616,155)	(616,155)	(201,658)	414,497
Net Changes in Fund Balances	(616,155)	(616,155)	(201,658)	414,497
Fund Balances - Beginning	616,155	616,155	547,086	(69,069)
Fund Balances - Ending	\$ 0	\$ 0	\$ 345,428	\$ 345,428

BELL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	Federal Grants Fund	Insurance Premium Tax Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 233,946	\$ 2,523	\$ 13	\$ 236,482
Total Assets	<u>\$ 233,946</u>	<u>\$ 2,523</u>	<u>\$ 13</u>	<u>\$ 236,482</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 1,608	\$ 120	\$	\$ 1,728
Grant Expenditures		2,403		2,403
Unreserved:				
Special Revenue Funds	<u>232,338</u>		<u>13</u>	<u>232,351</u>
Total Fund Balances	<u>\$ 233,946</u>	<u>\$ 2,523</u>	<u>\$ 13</u>	<u>\$ 236,482</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	State Grants Fund	Federal Grants Fund	Insurance Premium Tax Fund
REVENUES				
Taxes	\$	\$	\$	\$ 483,907
Intergovernmental	569,678	227,101	7,000	
Miscellaneous			965	
Interest				61
Total Revenues	<u>569,678</u>	<u>227,101</u>	<u>7,965</u>	<u>483,968</u>
EXPENDITURES				
General Government		4,230	2,940	
Protection to Persons and Property	8,758	1,410	7,000	362,974
General Health & Sanitation	26,500			
Social Services	9,750			
Recreation and Culture	83,057			
Roads	164,122			
Debt Service				
Capital Projects		221,461		
Total Expenditures	<u>292,187</u>	<u>227,101</u>	<u>9,940</u>	<u>362,974</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>277,491</u>		<u>(1,975)</u>	<u>120,994</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(350,000)</u>			<u>(120,991)</u>
Total Other Financing Sources (Uses)	<u>(350,000)</u>			<u>(120,991)</u>
Net Change in Fund Balances	(72,509)		(1,975)	3
Fund Balances - Beginning	306,455		4,498	10
Fund Balances - Ending	<u>\$ 233,946</u>	<u>\$ 0</u>	<u>\$ 2,523</u>	<u>\$ 13</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Abandoned Mine Land Laurel Fork Fund	Cumberland Gap Provisions Revolving Loan Fund	Total Non-Major Governmental Funds
	\$	\$ 483,907
495,928		1,299,707
	110,992	111,957
	160	221
<u>495,928</u>	<u>111,152</u>	<u>1,895,792</u>
		7,170
495,928		876,070
		26,500
		9,750
		83,057
		164,122
	111,152	111,152
		221,461
<u>495,928</u>	<u>111,152</u>	<u>1,499,282</u>
		396,510
		(470,991)
		(470,991)
		(74,481)
		310,963
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 236,482</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

**BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Bell County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bell County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Bell County reported in Part C of this schedule.
7. The program tested as a major program was: Abandoned Mine Land Reclamation Program - Laurel Fork Water Project (CFDA 15.252)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bell County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

2004-01 The County Did Not Maintain Adequate Documentation For Expenditures

The county made payments to a contractor who was under contract with the Commonwealth of Kentucky under Master Agreement No. M-04031271 and Master Agreement No. M-04030444 for work at a specified hourly rate. The provisions contained within those master agreements allows for the extension of those services to counties of the Commonwealth. During our testing, we discovered that expenditures totaling \$131,966 did not have adequate supporting documentation. The contractor's invoice consisted of lump sum amounts rather than an itemized billing of hours worked at the specified hourly rate. Therefore, we could not determine if the amounts paid to the vendor were within the specified rates included in the master agreement. In the future, we recommend that the county maintain adequate supporting documentation for all expenditures.

County Judge/Executive Albey Brock's Response:

This occurrence will not happen in the future. Correct documentation will be retained in the county records.

BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

REPORTABLE CONDITIONS - MATERIAL WEAKNESS

2004-02 The County Lacks Adequate Segregation Of Duties

There is a lack of segregation of duties relating to ambulance mail receipts because one person is solely responsible for opening mail receipts, posting mail receipts and depositing mail receipts. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. However, having one individual who is responsible for these duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The county should consider delegating some duties to other employees to help strengthen internal controls over ambulance mail receipts. For example, persons who have no access to cash receipts or accounts receivable should open mail and list receipts. Another person could record payments. We recommend that the county develop and implement procedures to help strengthen the internal control structure of ambulance mail receipts.

County Judge/Executive Albey Brock's Response:

The segregation of duties will be corrected.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

The County Lacks Adequate Segregation Of Duties

BELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

BELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Federal Grantor

Program Title

Grant Name (CFDA #)

Pass-Through

Grantor's Number

Expenditures

Cash Programs:

U.S. Department of Housing and
Urban Development

Passed-Through Governor's Office
for Local Development:

Community Development Block
Grants-

Stoney Fork Redbird Saylor

Hollow Waterline Project

Program (CFDA #14.228)

B-99-DC-21 0001 \$ 7,000

U.S. Department of the Interior

Passed-Through State Department
of Natural Resources:

Abandoned Mine Land Reclamation
Program-

Laurel Fork Water Project
(CFDA #15.252)

M-02347189 495,928 ***

Passed-Through Governor's Office
for Local Development:

Federal Land and Water
Conservation Program
(CFDA #15.916)

21-01206 2,940

Total U.S. Department of the Interior

498,868

BELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Anti-Drug Initiative (CFDA #16.508)	Not Available	\$ 4,478
<u>U. S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs: Public Assistance Grants - Severe Weather - (CFDA #97.036)	Disaster 1407	10,588
Emergency Management Performance Grants- Coordinator Salary (CFDA #97.042)	Not Available	13,770
Total U.S. Department of Homeland Security		24,358
Total Cash Expenditures of Federal Awards		\$ 534,704

***Tested as Major Program or Cluster

BELL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bell County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
Members of the Bell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 7, 2007. Bell County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

2004-02 The County Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

2004-01 The County Did Not Maintain Adequate Documentation For Expenditures

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 7, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
Members of the Bell County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Bell County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Bell County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bell County's management. Our responsibility is to express an opinion on Bell County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bell County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bell County's compliance with those requirements.

In our opinion, Bell County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Bell County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bell County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 7, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAMS**

BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Appendix A

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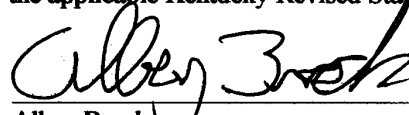
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

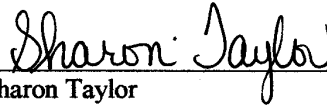
BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Albey Brock
County Judge/Executive



Sharon Taylor
County Treasurer

